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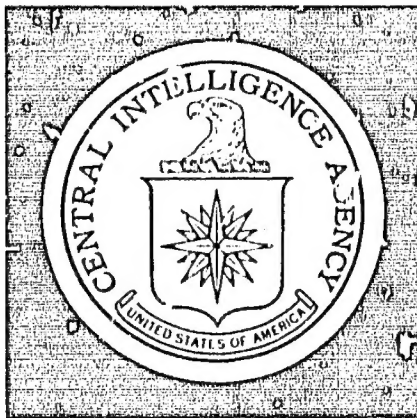
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2 DEC 1971

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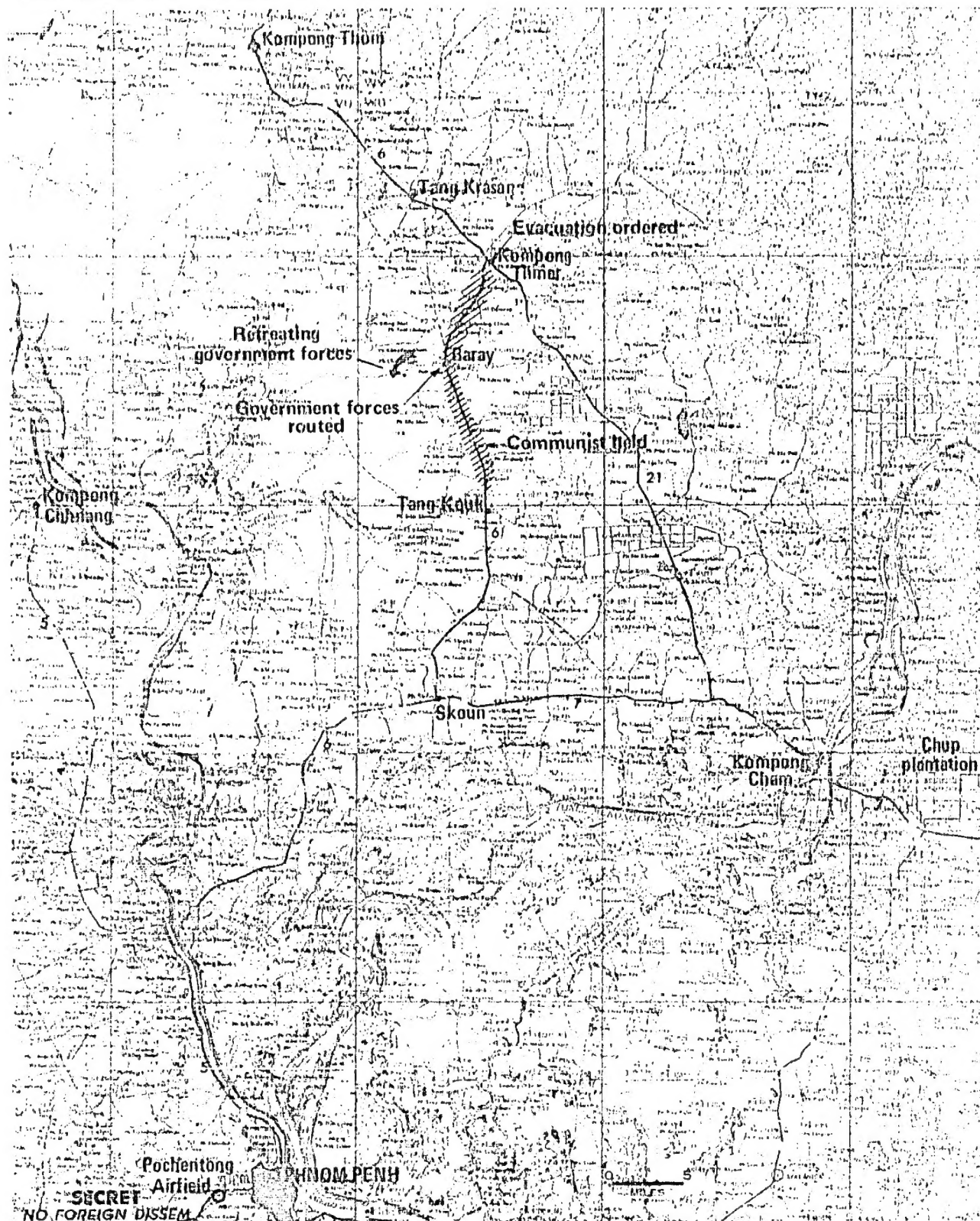
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CAMBODIA: Route 6 Area



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CAMBODIA: The government is abandoning major areas along Route 6 in the face of heavy Communist attacks.

The Communists routed a nine-battalion government force from Baray with heavy ground, recoilless rifle, and rocket attacks early yesterday morning. The retreating troops destroyed several tanks, armored vehicles, and artillery pieces prior to pulling out. Brigadier General Hou Hang Sin, the army's assistant chief of staff for operations, was in Baray during the attacks and apparently managed to organize a withdrawal of soldiers and their dependents toward Tang Kouk, some ten miles to the south. Farther north, a five-battalion government force in Kompong Thmar was still under enemy attack at last report, with all outlying outposts abandoned and government troops digging in near the center of town. There are as yet no reports on the magnitude of government losses in these actions.

Prime Minister Lon Nol has ordered the evacuation of Kompong Thmar, a move prompted by a desire to avoid the loss of additional battalions. It is not yet clear whether this also means the prime minister has abandoned the idea of maintaining a Chenla force north of Tang Kouk, where the Chenla II operation began last August. He evidently does intend, however, to hold positions south from Tang Kouk to Skoun and has ordered battalions returned to Tang Kouk from the Phnom Penh area.

The continued heavy fighting suggests that the Communists will continue to pressure the remaining Chenla II-North forces, at least for the next several days. Communist propaganda is laying considerable stress on the Route 6 campaign, portraying it as a major setback for the Lon Nol government and as evidence that the Cambodians cannot successfully prosecute the war even with allied support. The propaganda calls for the "complete smashing of Operation Chenla II," and has mentioned Tang Kouk as a principal target. (SECRET NO FOREIGN DISSEM)

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INDIA-PAKISTAN: Fighting continues around the periphery of East Pakistan. Operations evidently are being pursued in the Jessore area, at Hilli--where the Indians acknowledge that Indian troops entered East Pakistan--near Pachagarh, which the Pakistanis now admit they have lost, and at Kamalpur. There is no confirmation of Indian claims that the Mukti Bahini are besieging Feni--an important town on the railway and main road from Chittagong to the rest of East Pakistan.

In Sylhet District, the Mukti Bahini claim to have liberated several towns. These are, however, on a remote part of the border.

A Pakistani foreign liaison officer, evidently discouraged over developments, told the US defense attaché that there are not enough men to allow Pakistani troops on the border to move to rear areas for rest, but that the Indians are rotating units to face the Pakistanis with fresh troops. In addition, the Indians are using an "enormous" amount of artillery which outranges the Pakistani guns to soften positions prior to infantry attacks. The liaison officer said he believed that war with India might be necessary and that defeat would be no worse than letting matters go on as they are.

There are signs, moreover, that the movement of Pakistani troops to the border is giving the Mukti Bahini a much freer hand in the interior. Security forces have abandoned a small area about 15 miles west of Dacca, and to the east the town of Ghorasal is now flying the Bangla Desh flag. The Indian press credits the guerrillas with controlling all of Faridpur and Barisal districts. The claim appears, however, to be at least partly exaggerated, and in any case guerrillas for some time have controlled a large part of the rural areas of southcentral East Pakistan.

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With Indian military pressure growing in the East, there has been a flurry of political activity in West Pakistan. President Yahya has met with the leaders of the two largest parties--Nurul Amin, an East Pakistani who adheres to the government, and Z. A. Bhutto, the left-leaning West Pakistani. According to a Pakistani press report, Bhutto has agreed to accept the post of deputy prime minister in a coalition civilian government headed by Amin. Yahya may intend to establish such a civilian government even before the promulgation of a constitution, now scheduled for 20 December. Yahya may see turning over power as the only means to avoid having personally to choose between negotiating with the Bengalis and fighting a war with India. (SECRET NO FOREIGN DISSEM)

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COMMUNIST CHINA: Peking's first major pronouncement on domestic politics since the purge of Lin Piao forcefully reaffirmed the paramountcy of party leadership in all fields but did not forecast a broader purge within the military hierarchy.

The joint People's Daily - Red Flag - Liberation Army Journal editorial on 30 November cautiously skirted future policy guidelines but provided the first public rationale for the recent leadership upheaval in its veiled, yet unmistakable, implication that Lin fell because he was involved in a "conspiracy." The suggestion that Lin had initiated an abortive power play echoes recent secret briefings given party cadres at all levels, although neither the briefings nor the editorial shed much light on the personal and policy divisions which triggered the purge of Lin.

The editorial's failure to praise the political rectitude of the military or to cite its important role in civil administration reinforces the impression that Peking intends to exploit Lin's fall to pave the way for some diminution of the military's authority in China. The warning to high-ranking cadres to observe Mao's line, the emphasis on the importance of unified leadership in all party committees, and the call for observing strict discipline almost certainly are directed at military powerholders who might have reason to fear some future reduction of their political leverage.

The impression that Peking is determined to reassert party--as opposed to military--authority was reinforced last week in Hong Kong by Jack Chen, a publicist for Peking, who wrote that key policy directives on all national matters are to be transmitted in the future through the party and government, rather than the military, chain of command, and that the key figure in all leadership organs will be the party's representative--"whether or not

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he is a military member." Then described these adjustments as a major structural reform currently being implemented throughout the country.

The publication of the joint editorial strongly suggests that Peking is confident that the situation within the nation's leadership is now under control and that Lin's fall is unlikely to have serious repercussions on domestic stability. The editorial conveys the impression that the recent purge involved only a handful of "anti-party" elements at the top levels and even implies that others who may have been peripherally involved will not suffer serious consequences. Thus, the regime's determination to close ranks within the leadership seems clear. The process probably is being facilitated by behind-the-scenes reassurances that Lin's fall is not the prelude to sweeping purges in the regional and provincial power structure, and that some rectification of the present imbalance between civil and military authority in party and government organs will not result in a drastic reduction of military influence.

Nevertheless, the oblique signal in the joint editorial that a major internal crisis has passed does not mean that the situation is fully resolved. Selected changes in personnel assignments in the provinces are almost certainly in the offing and, at the national level, Peking is still operating with a rump politburo.

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25X1C [REDACTED] In any case, approximately a dozen vacancies on the politburo remain to be filled, and the appointments of a new defense minister and army chief of staff obviously are issues of considerable sensitivity. At this stage, it is clear that Premier Chou En-lai's influence remains overriding. (SECRET NO FOREIGN DISSEM)

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CUBA - SOUTH AMERICA: Fidel Castro's prolonged excursion to Chile is about to be concluded. A farewell rally is scheduled in Santiago this evening, but the timing of his actual departure is not yet clear.

Castro probably believes that he has accomplished all of his journey's goals and now realizes that after three weeks his welcome is wearing thin. [An unprecedented violent antigovernment demonstration by thousands of women in Santiago last night was also directed against Castro.] His next stops apparently will be in Peru and Ecuador.

Castro's prospective visit to Peru has been greeted with mixed emotions in official Peruvian circles, but President Velasco Alvarado reportedly still intends to greet him at Lima's airport. No formal invitation has been announced, however, and Velasco's statement to the press that Castro can stop if he wishes may not satisfy the Cuban leader.

25X1C [redacted] Peruvian reaction to Castro's request to visit Cuban disaster workers in an area severely damaged by the 1970 earthquake was decidedly negative. Faced with these rebuffs, Castro could decide to skip Peru.

Ecuador's President Velasco Ibarra has announced that he will greet Castro when he stops in Guayaquil. The two leaders reportedly will hold a meeting at the airport. They are likely to discuss Ecuador's probable cooperation with Peru in seeking revision of OAS sanctions against Cuba and the possibility of renewal of relations between Ecuador and Cuba. (SECRET NO FOREIGN DISSEM)

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ARMS CONTROL: The UN General Assembly's annual disarmament debate is drawing to a close with several important issues yet to be decided.

An especially thorny problem is the future of the Geneva disarmament conference. Most UN members clearly regard the Geneva talks as a highly desirable forum, but want the door left open for Chinese participation and hope that the French will occupy their long-vacant seat. Although neither the Chinese nor the French have made their intentions clear, the main stumbling block to their participation is the fact that the superpowers serve as cochairmen. The Swedes have drafted a resolution that would have the Assembly terminate the cochairmanship. There is also the possibility that some members will call for scrapping the Geneva forum in favor of convening the unwieldy all-member UN Disarmament Commission.

The Soviet proposal for a world disarmament conference now seems unlikely to make any headway at this session of the Assembly. During last week's polemical exchange on the issue, the Chinese delegate stated that the Soviet text should not come to a vote. The Swedes and the Mexicans have drafted what they regard as face-saving amendments for the USSR; these amendments would in effect defer the matter to next year's session of the Assembly.

With respect to other disarmament issues, the US and the USSR are likely to secure Assembly endorsement of their draft convention curbing biological weapons. However, the two superpowers are singled out for criticism in a Mexican draft resolution on the need for a comprehensive nuclear test ban (CTB). The Mexican text calls for setting a date for ending all nuclear tests and asserts that "there is no longer a valid reason for delaying" agreement on a CTB. The US mission at the UN reports that most members believe this resolution will pass if put to a vote in the Assembly. The USSR has indicated that it will abstain. (CONFIDENTIAL NO FOREIGN DISSEM)

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ITALY: The Italian Communist Party had moderate success last week convoking a cross-section of European leftists to discuss the European Communities (EC).

The meeting in Rome from 23 to 25 November drew representatives from nine West European countries and all Warsaw Pact states. Italian Christian Democrats, Socialists, Republicans, heads of two major government enterprises, and a French Socialist also attended.

The PCI, which over the past two years has made tentative moves away from its long-standing hostility to EC, was evidently testing the climate that a new position on the Communities would meet both in Italy and among leftist parties elsewhere in Europe. Acting secretary general Berlinguer reportedly has told his central committee that the PCI's role in Europe will be one of the major topics for its thirteenth congress in March 1972. Under Berlinguer the PCI has stressed its support for Italian economic growth, which in its view is linked to an Italian role within the EC.

Giorgio Amendola, who leads the six-man Italian Communist delegation to the European Parliament, opened the meeting by calling for West European Communist recognition of the "EC reality." He proposed that EC should operate in cooperation with CEMA within a larger European framework but emphasized that the PCI did not oppose Italy's participation in the Community. He said that the PCI would never accept the reduction of Europe to merely its capitalist part but added "we are not so closed dogmatically that we cannot see that the difficult work of Socialist construction in the East needs more advanced democratic development." Other PCI speakers emphasized the development of a Europe of organized labor to face the Europe of the monopolies. This emphasis reflects PCI interest in the success of current negotiations for unification of the three

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major Italian labor confederations and its hope that the unification may be repeated elsewhere in Europe.

Aleksei Kozlov, consultant to the CPSU international section specializing in foreign Communist parties, did not directly attack the EC but concentrated his remarks on the need for an early Conference on European Security. He said, "Europe, great Europe, is indivisible, as European security is indivisible. It cannot be cut up like an apple."

The sole French Communist representative, a newspaperman, supported the Amendola line but urged great caution. Ron Bellamy of the British Communist Party directorate, clearly unable to be more positive on the EC than the British Labor Party, flatly opposed Amendola.

The Italian Communist success in convoking the meeting, which emphasized a popular plank in the PCI program and drew non-Communist Italians, will help the steady PCI effort to win respectability among non-Communist political elements in Italy and elsewhere in Europe. (CONFIDENTIAL)

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COMMUNIST CHINA - PERU - CHILE: Peking's commercial relations with Peru and Chile have been enhanced by several recent agreements.

China's long-term interest-free credit of over \$40 million to Peru is the first to be extended by Peking to a Latin American country other than to Cuba. It will be used to provide technical aid to help develop Peru's mining and petroleum industries. Peking also agreed to purchase \$100 million worth of Peruvian copper, lead, and zinc. Because delivery under this agreement is to be made during 1972-74, the copper involved may incorporate the 40,000 tons that Peru agreed in June to ship to China before the end of 1972.

Chile recently signed a contract to deliver 60,000 tons of nitrates worth about \$3.3 million to China during the first half of 1972. An agreement for a smaller amount was signed last year. In a related development, a Chilean economic mission arrived in Peking on 29 November, probably to work out the details of trade next year under the long-term agreement concluded between the two countries last April. (CONFIDENTIAL)

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COSTA RICA: The unexpected accreditation of two Soviet diplomats as advance members of a Soviet embassy may set off a new period of political tension.

The arrival of the two diplomats, a first and a second secretary, raises the number of Soviet officials in Costa Rica to seven. A permanent five-man trade mission quietly set up shop in late October. Presumably other officials, including an ambassador, will be added in the future.

The move can be expected to create a political stir, especially in view of the manner in which President Figueres and his foreign minister have handled the question of Soviet presence in Costa Rica. The Foreign Ministry, when queried by the press on 28 November about the two diplomats, indicated that they were on only a temporary visit. Figueres had given the impression last July, when the prospect of a Soviet embassy provoked a groundswell of local opposition, that the plan had been abandoned. When the trade mission arrived, the government indicated that it would leave as soon as it completed work on a commercial agreement.

The government has chosen a good moment to make its move: one of the chief opponents of an exchange of embassies with the Soviets is out of the country now and the presence of several popular touring Soviet cultural groups perhaps has helped to create a climate of receptivity to the idea of closer ties with the USSR.

Nonetheless, those who opposed the President's plan in July are still strongly against the Soviet embassy. If they learn that they have Russian diplomats in their midst, they probably will again cause an uproar and Figueres may be forced to backpedal once more. (CONFIDENTIAL)

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AFRICA-RHODESIA: Black African reaction to the UK-Rhodesian settlement has been surprisingly muted so far. The governments of Tanzania, Zambia, Kenya, and Ethiopia have been strongly critical, but most other African governments have yet to make public statements. The issue will probably be debated soon within the Organization of African Unity. It is doubtful, however, that a majority of the OAU members will do more than publicly condemn the settlement and agree to act in concert in the UN against any British bid to drop UN economic sanctions. (CONFIDENTIAL)

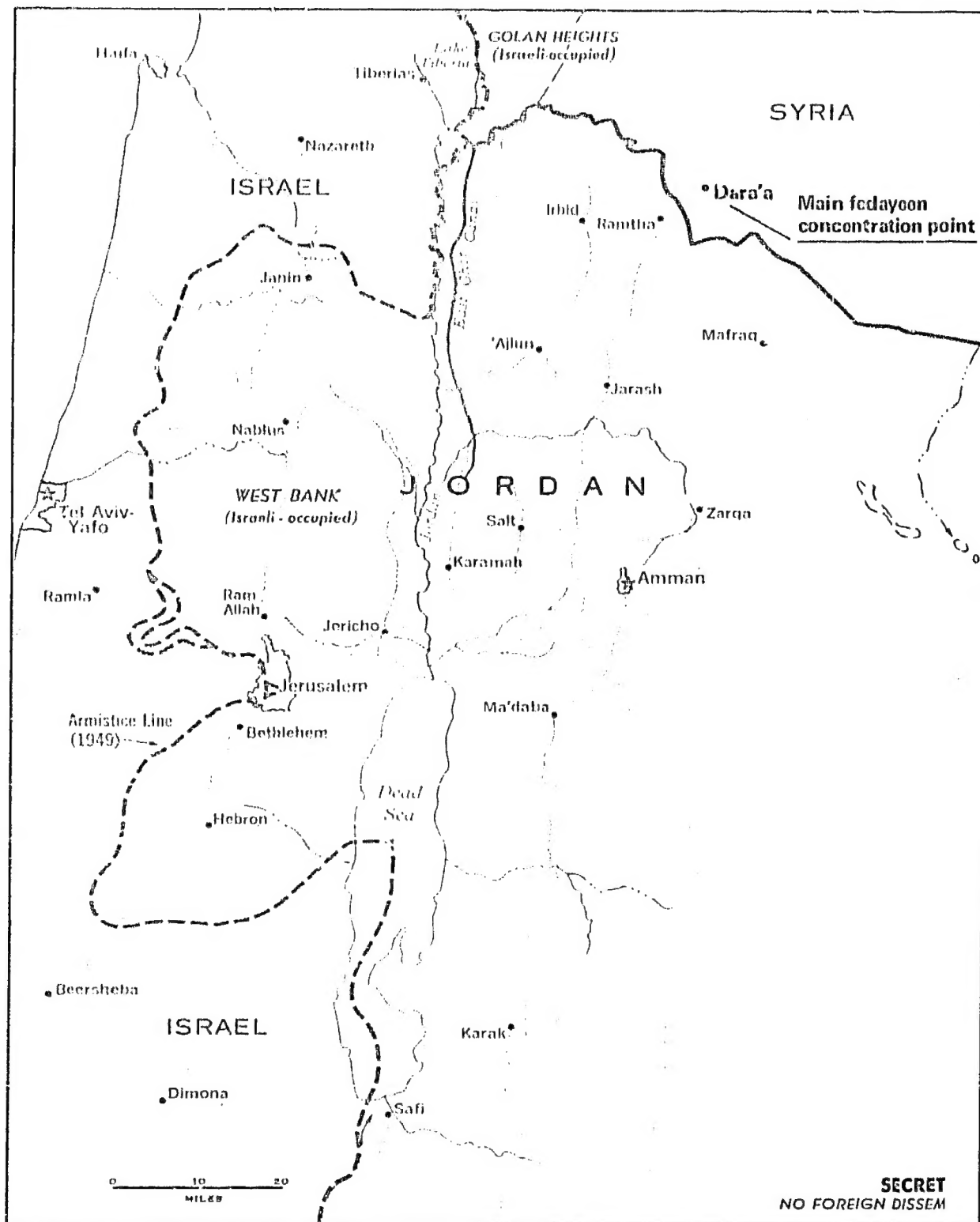
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SOUTH VIETNAM: Saigon's business community remains uncertain about the likely effects of the recent economic reforms, but prices thus far have risen much less than expected. Although there have been sharp increases for such key commodities as rice, condensed milk, and sugar, the over-all retail price level in Saigon is up only 1.9 percent since the reforms were announced on 15 November. In areas outside Saigon prices have increased somewhat more, but US officials expect the stability of Saigon markets to have a settling influence elsewhere. The complexity of the reforms, which included a large devaluation of the piaster, adoption of flexible exchange rates, and complete revision of import taxes, apparently has caused a slowdown in import activity. As the importers adjust to the new exchange rate system, however, there probably will be further increases in the prices of imported goods. (SECRET)

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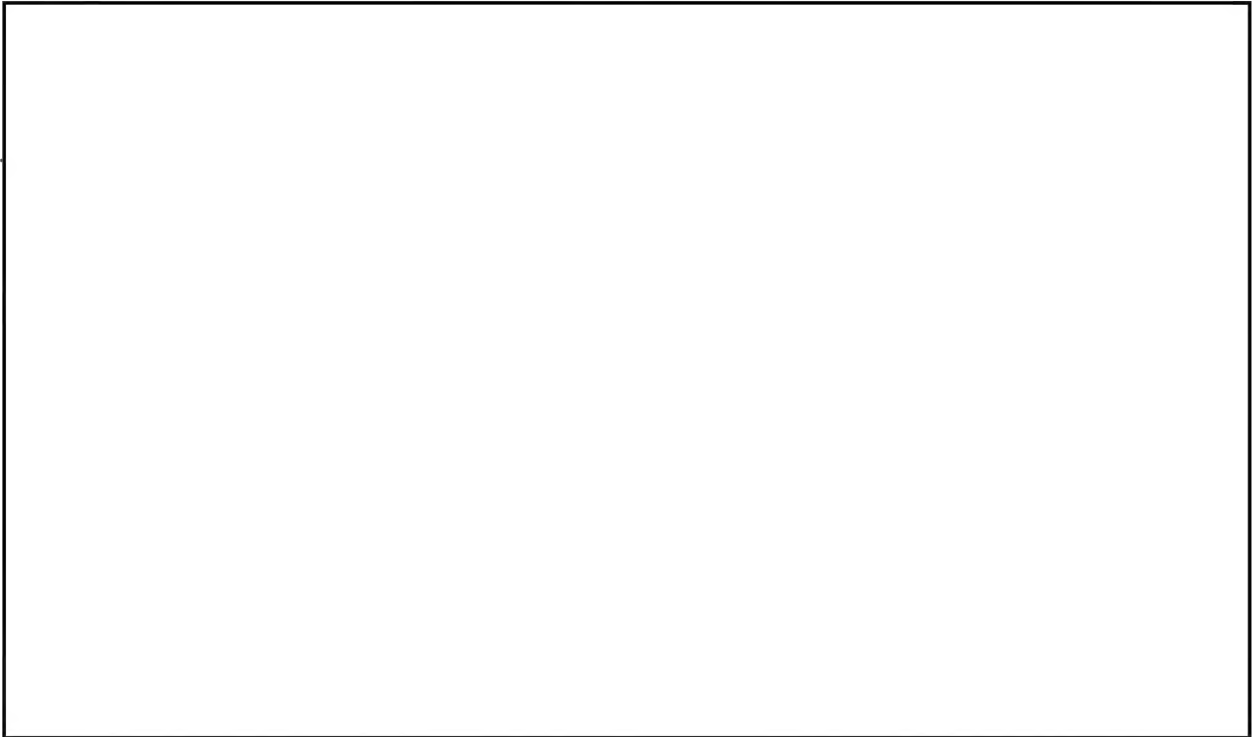


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USSR-SOMALIA: A Soviet Foreign Ministry official reporte ly has said that Moscow will finance most of the Juba River development project in Somalia, although a high-level Somali planning official has stated that Moscow would pay the entire cost of the project--estimated at between \$85 and \$115 million. This suggests that, in either case, Moscow will provide a substantial amount of new aid because only about \$25 million of earlier credits has not been used. The Soviets surveyed the area several years ago but the study will have to be updated, according to Somali sources. The project includes construction of a dam, irrigation canals, and a hydroelectric power station. (CONFIDENTIAL)

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VENEZUELA: The government apparently is considering minimum production levels for foreign-owned oil companies to force them to boost output. Venezuela's oil exports encountered difficulties this year as growth in foreign demand slowed and production dropped in September to a daily average of 3.3 million barrels, compared with 3.7 million barrels per day in 1970. Although production recovered somewhat in October-November when seasonal demand for heating oil increased, it is now declining again, and one industry official believes it may fall further during the next few months. In addition, the companies, largely US-owned, are apprehensive that the production cutbacks could become a political issue and prompt the Venezuelan congress to hit the industry with new restrictive legislation. (CONFIDENTIAL)

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MAURITIUS: Tension persists following the attempt to assassinate opposition leader Paul Berenger last Thursday. Police have arrested four thugs of the Social Democratic Party, the second largest party in the government coalition. The identity of the assailants was generally known at the time of the incident, but police action has been slow and this has further discredited the already unpopular government. Berenger has attempted to maintain calm, but his followers in the Mauritian Militant Movement are restless and dockworkers are threatening a wildcat strike. The maintenance of public order over the next few weeks will depend in large measure on how vigorously the government prosecutes the accused. (CONFIDENTIAL)

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MALI-FRANCE: France's aid chief reportedly assured Mali's leaders during his recent visit that Paris would underwrite about 80 percent of the country's current development plan. France will also continue substantial budgetary and other support vital to financially hard-pressed Bamako. The French aid chief told US officials that Paris did not attach any political strings to this assistance package. This represents a new success for Mali's policy of seeking unfettered aid from all sources. Bamako can be expected to use this reassurance of substantial French aid to solicit greater assistance from Moscow and from Peking, which has just sent a team to Mali to study a major dam project. (CONFIDENTIAL)

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